

Michael R. Brown, Chairman
Kevin S. Carter, Director

MINUTES OF THE MEETING OF THE
SCHOOL & INSTITUTIONAL TRUST LANDS ADMINISTRATION
BOARD OF TRUSTEES

DATE: November 17, 2011

PLACE: SALT LAKE CITY, UTAH

ATTENDING: BOARD

Dan Lofgren
Steve Ostler
James Lekas
David Ure
Louis Cononelos
Mike Mower

STAFF

Kevin S. Carter
Kim Christy
Doug Buchi
Dave Hebertson
Tom Faddies
Lisa Schneider
John Andrews
Wendy Peterson
Ron Carlson
Sonja Wallace
Kay Burton
LaVonne Garrison
Bryan Torgerson
Rick Wilcox
Lynda Belnap
Nannette Johnson
Les Warner
Effie Burns
Chris Fausett
John Blake

OTHERS IN ATTENDANCE

Martell Menlove, State Office of Education
Margaret Bird, State Office of Education
Tim Donaldson, State Office of Education
Paula Plant, State Office of Education
Karen Rupp, State Office of Education
Tyler Slack, Utah PTA
Gene Belnap, Guest
Jill Flygare, Governor Office of Planning and Budget
Todd Bingham, State Office of Education
Amanda Smith, Department of Environmental Quality

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Vice Chairman Dan Lofgren excused Chairman Brown and welcomed those in attendance.

1. Approval of Board Minutes

The Board approved Minutes of October 13, 2011

Ure/Mower Unanimously approved.

“I move that we approve the Board minutes of October 13, 2011.”

Roll Call:

Dan Lofgren - - yes	James Lekas - - yes
Steve Ostler - - yes	Dave Ure - - yes
Louis Cononelos - - yes	Mike Mower - - yes

2. Confirmation of Upcoming Meeting Dates and Calendar of 2012 Meetings

The Board, without motion, confirmed the following upcoming meeting dates:

December - - No Meeting
January 19 - - Salt Lake City
February - - No Meeting
March 15 - - Salt Lake City
April 11 - - Board Tour - St. George
April 12 - - St. George
May 17 - - Salt Lake City
June 14 - - Salt Lake City
July - - No Meeting
August 9 - - Salt Lake City
September 13 - - Salt Lake City
October 10 - - Board Tour - Moab & LaSals
October 11 - - Moab
November 8 - - Salt Lake City
December - - No Meeting

Director Carter reminded the Board members there is no meeting in December. The January Board meeting is scheduled for the third week in January due to the WSLCA Conference. Tours are planned for the day before the meetings in April and in October. Board meetings will be held in the locations near the tours on the following day.

Preference for April and October meetings with tours the day before was voiced by Dan Lofgren as there being value in meeting in the tour locations on the day after the tour. A reception in the evening, after the tour, will also be planned. Local elected officials will be invited to the reception.

3. Director's Report

a. Assistant Director's Report - - Oil and Gas

i. Energy Presentation by Amanda Smith

Ms. Garrison introduced Ms. Amanda Smith, Executive Director of the Department of Environmental Quality, who presented the Governor's Energy Plan. She is also the Governor's energy advisor.

Ms. Bird inquired as to whether there is a move toward getting more natural gas stations throughout the state in order to encourage people to drive natural gas vehicles. Ms. Smith stated there are some serious steps being taken to accomplish more access to natural gas as vehicle fuel.

Regarding "one voice" on energy, Ms. Bird asked what the Governor will do when he has to represent those who elected him and also speak on trust lands issues and represent the beneficiaries? Ms. Smith stated she cannot speak for the Governor, yet she thinks he understands the difference. Ms. Bird noted there should not be a problem as long as you have a governor that supports energy development. She thinks it is important that someone communicate to the Governor regarding his own views on energy and his responsibility when speaking on SITLA issues. Ms. Smith stated the Energy Office has one goal, and that is to develop energy.

Mr. Ure asked how they fund the unconventional energy development person when they are doing more than paper work. Ms. Smith stated this person would spend their time identifying the hurdles the state needs to overcome to develop unconventional energy. This person will help "put pieces together" with people in industry. She stated there is no state funding that can help this person, but there are some incentives in GOED that could be used. They are looking at moving this incentive to the State Energy Office.

Mr. Ure asked about access to current fuel lines for transporting fuel and the coordination with utilities to use the established lines. Ms. Smith confirmed that existing lines are not yet an option.

Ms. Smith presented the report to the Board through a power-point presentation as follows:

Governor's Energy Advisor Report - 2011

Status and development of Utah's energy resources.

Update on Governor Herbert's 10-Year Strategic Energy Plan

Implementation of the Plan and Utah Energy Policy

Report from Office of Energy Development

Economic Outlook 2011 (GOPB)

- Energy - Consumption increased across the board in 2010 after declining in 2009 due to the recession. Crude oil production and electricity generation experienced new growth, while natural gas production declined from 2009-record highs and coal production continued its slide as several mines experienced expected and unexpected delays or shutdowns. Early indications are that 2011 will continue on the path of slow and cautious growth.

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3. Director's Report (Cont'd)

a. Assistant Director's Report - - Oil and Gas (Cont'd)

i. Energy Presentation by Amanda Smith (Cont'd)

Energy & the Consumer

- Utah's average price of residential natural gas in 2010 was only \$8.21 per thousand cubic feet, the third lowest in the nation
- In 2010 - 81% of the electricity generated in Utah was from coal-burning power plants
- Sales of electricity in Utah increase an average of 4.3% each year.
- Utah's average price of residential electricity in 2010 was only 8.7 cents per kWh, the fifth lowest in the nation
- Utah is one of only eight states to produce electricity from geothermal sources
- Utah is Four Cornerstones Strong

Governor Herbert's Priorities

- Education
- *Energy*
- Economic Development
- Self-Determination

Energy Initiatives & Imperatives - - Utah's 10-Year Strategic Energy Plan

Call to Action: Ensure access to affordable, reliable and sustainable energy by producing 25% more electrical energy than we consume by 2020.

Objective 1: Aggressively pursue innovations in energy efficiency and development

Objective 2: Promote policies and practices for improved air quality

Objective 3: Encourage responsible energy resource development

Guiding Principles

1. Free Market Development of All Resources
 - Legislative and Regulatory Oversight
2. Minimize and Mitigate Impacts
 - Human, Environmental and Wildlife Habitat
3. Living and Evolving Document
 - Best Practices Public Discussion with Stakeholders
4. Utility Costs
 - Price Stability and Relative Affordability
5. Energy Independence
 - Export and Economic Expansion Opportunities

Recommendations

1. Establish an Energy Office (HB475)
 - Consolidate existing energy functions
 - Form State Energy Advisory Committee

3. Director's Report (Cont'd)

a. Assistant Director's Report - - Oil and Gas (Cont'd)

i. Energy Presentation by Amanda Smith (Cont'd)

2. Develop Plans to Keep Public Lands Open
 - Coordinate efforts and leverage partnerships
 - Utilize the Governor's Balanced Resource Council
3. Enhance Technology Advancement
 - Develop a Research Triangle
 - Leverage INL for clean fossil fuels
4. Review Role of Tax Incentives
 - Use REMI to determine impacts
 - Assess manufacturing and development tax credits
5. Increase Regulatory/ Licensing Transparency
 - Develop a long-range transmission
 - Adjust regulatory framework for technologies
6. Reduce Energy Consumption State-Wide
 - Support education and communication programs
 - Expand EE programs and analyze incentives
7. Diversify Transportation Fuels
 - Reduce dependence on outside sources
 - Build infrastructure and promote research
8. Lay Foundation for Base Load Growth
 - Examine coal and natural gas supplies
 - Facilitate nuclear dialogue and evaluate RE storage

Seven Priorities

1. Base Load Fuels for Electric Production - Coal & Natural Gas
2. Infrastructure / Transmission / Transportation
3. Energy Resource and Technology Development as a Catalyst for Job Creation
4. Energy Technology Research Triangle
5. Renewable Energy Development/Utility-Scale Energy Storage Technologies
6. Wasatch Front/Uintah Basin Air Quality Issues related to Energy Production & Consumption
7. Energy Efficiency, Conservation, and Current Tax Incentives

Implementation of 10-Year Initiative

- Active working task force – developing and overseeing strategies
- Energy Coordinating Council: OED, DEQ, DNR, DOGM, SITLA, UDAF, PLPCO, GOED
- Greater coordination with PSC
- Working across agency boundaries: GOED, USTAR, OED & DOGM

3. Director's Report (Cont'd)

a. Assistant Director's Report - - Oil and Gas (Cont'd)

i. Energy Presentation by Amanda Smith (Cont'd)

Success to Date

- Appointment of Office of Energy Development Director and creation of office
- Uinta Basin Air Quality Initiative
- Energy Business Assistance
- One –Voice on energy from the State of Utah

Energy Coordinating Council - Vision

To serve as the primary resource for advancing energy development in Utah.

Mission

To provide leadership in the balanced development of Utah's abundant energy resources through public and private partnerships for economic prosperity, energy independence and a reliable, affordable energy supply.

Strategic Objectives

- Create & Implement Policy for the Governor, Legislature, and State
 - Promote the goals and strategic recommendations outlined in Utah's 10-Year Strategic Energy Plan, legislative initiatives, and state policies and directives
- Industry Assistance
- Guide energy development projects through the regulatory, permitting and economic development processes, and support job creation for Utah
- Relationship Building
 - Be a central hub within Utah through the establishment of a network of energy stakeholders
- Funding Opportunities
- Seek funding sources to carry out and support implementation of energy projects and programs.
- Energy Education
 - Raise the level of energy awareness through educational programs, public outreach campaigns, and technical assistance services

OED Team

- Currently 20 Staff
 - Will reduce to about 1/2 around April 2012
 - Will ask legislature for support to create depth
- New Hires – Cost Sharing
 - Conventional Energy Development Manager
 - Coal, Oil, Gas, Utilities (DOGM)

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3. Director's Report (Cont'd)

a. Assistant Director's Report - - Oil and Gas (Cont'd)

i. Energy Presentation by Amanda Smith (Cont'd)

- Unconventional Energy Development Manager
 - Oil Shale, Oil Sands, Nuclear, CO2 Sequestration (USTAR)
- Rural Outreach & Special Projects
 - State/Local Events, Initiatives, Issues (USTAR)

Mr. Cononelos noted that our energy needs really come down to what we do regarding coal, oil and gas, etc. He asked if we are going to have 25 percent over Utah's need, will the state plan to export that energy. Ms. Smith stated yes. We actually produce 29 percent more than we need. The goal is to keep it at 25 percent. Mr. Cononelos asked what Utah is doing regarding carbon sequestration. Ms. Smith stated Utah has a pilot program in Gordon Creek, and we are working through the EPA issues with them.

Mr. Ure noted this energy goal hinges on transmission lines. He also asked about the success of U-Grain as a local energy source. Ms. Smith referred to an online source for information about alternative energy at: energy.utah.gov.

b. Assistant Director's Report - - Surface

i. Proposed Negotiated Sale - Mr. James Hanley

Kim Christy presented information related to the Lower Miller Creek negotiated Sale (PS7801). This report was a follow-up from the October Board meeting in which, the Board requested the negotiated sale be removed from the consent calendar and presented at another Board meeting.

Mr. Christy provided additional information in a PowerPoint presentation. He reported that the sale would include a trespassing penalty and the expense of testing which increases the sale price to \$33,180. The total price including closing costs will be \$37,489. Mr. Christy also reported that Mr. Hanley would be sent a bill for the trespass on another piece of land, which his pivot system crosses.

Mr. Mower asked why it took so long to discover these trespass violations. Mr. Christy discussed how it required visiting the site in person to see a possibility of trespassing. Technology and aerial photographs now make it possible to overlay trust land boundaries over satellite photographs to see where activity is occurring.

Mr. Christy has discussed the sale with Mr. Lekas and Ms. Bird since the last meeting. The changes presented come from those discussions.

Mr. Lofgren asked if Mr. Lekas and Ms. Bird are satisfied with modified sale arrangements. Mr. Lekas indicated the sale is distasteful, but acceptable. Ms. Bird is willing to move forward with the sale.

3. Director's Report (Cont'd)

b. Assistant Director's Report - - Surface (Cont'd)

i. Proposed Negotiated Sale - Mr. James Hanley (Cont'd)

The Board concurred with the land sale to Mr. Hanley with penalties and expenses added to the purchase price.

Mr. Christy finished by pointing out that this sale has brought forth the discovery of this type of problem and drives a better means for detecting trespasses earlier.

c. Assistant Director's Report - - Minerals

i. Report on Analysis of Coal Revenue

Tom Faddies provided information about coal revenue and long-range projections of mining potential. The current fiscal year revenues are down from projections, the decline is projected as temporary. Mr. Faddies presented the mineral report to the Board through a PowerPoint presentation as follows:

Utah's Producing Coal Mines

- | | |
|-----------------|--------------------------|
| 1. Deer Creek | Pacificorp (Exchange) |
| 2. Sufco** | Arch Minerals (Exchange) |
| 3. Skyline | Arch Minerals |
| 4. Deep Emery** | CONSOL (Standby) |
| 5. Dugout** | Arch Minerals (Exchange) |
| 6. Westridge** | Andalex (Exchange) |

** *Indicates SITLA Lands*

Tracts Leased/Not Developed

1-Cottonwood: Fossil Rock Fuels (Exchange Tract)

SITLA's position in this tract is a cash account paid out of the royalty stream from production.

Account Balance 1999: \$13,006,105 Current Balance 2011: \$19,142,605

Annual Rental: \$11,936

Interest is accruing @ \$27,000 per month.

SITLA Lease Tract: Est. 6.9 million tons recoverable

2-Deep Emery: CONSOL (project on standby)

Tracts Available for Lease

- North Horn 100 million tons Geologic

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- Deep Muddy 3 million tons Geologic
- Willow Creek 3 million tons Mining

3. Director's Report (Cont'd)

c. Assistant Director's Report - - Minerals (Cont'd)

i. Report on Analysis of Coal Revenue (Cont'd)

- Hidden Valley 1.4 million tons Mining
- Soldier Canyon N. ?
- Fremont Junction 40 million tons Geologic
- Williams Draw 1.5 million tons Geologic

Trust Land Coal Revenues

The chart illustrated a peak in revenues from 2007 through 2011 with continued decline in projections for 2012 through 2014.

Projected Trust Lands Coal Reserves

The chart illustrated income from royalties, rent, and bonuses from coal reserves through 2016.

Mr. Lofgren asked why there is a decline in coal revenue in the projections. Mr. Faddies reported on the practice of the mining industry to move away from mines and return later for more extraction. The rotation from one mine to another is to follow the coal seams. Also, there is a stockpile of coal on Utah land so the production of coal is not currently necessary. Utah sells coal to California, and the need there is down due to increased use of natural gas. While the demand for energy is down, Mr. Faddies predicted a recovery in about five years.

Mr. Ure asked if Mr. Faddies recommends the Board see Cottonwood Tract as profitable. Mr. Faddies indicated he believes there is future revenue in that tract, but he is not recommending anything to the Board at this time.

d. Associate Director's Report

i. Legislative Preview

John Andrews presented the Board with a wording change to current statute to address eminent domain. The Board concurred with the change. Staff will keep the Board updated on the progress.

John Andrews described a situation in which a ranch owner refused to allow access to SITLA. The statute allows for milling, production, etc. of mineral deposits on the land. The rancher took the dispute to the Supreme Court where the decision was for no right to eminent domain.

Representative Mathis has been running legislation to give landowners more protection. The existing statute offers strong protection with landowners through a right of adjudication if dispute cannot be resolved.

3. Director's Report (Cont'd)

d. Associate Director's Report (Cont'd)

i. Legislative Preview (Cont'd)

The proposed wording change addresses this concern. The effort to modify eminent domain is still being sorted out through litigation. Utah Farm Bureau has taken a dim view of private rights of eminent domain by indicating they are not enthusiastic for expansion we may provide. On the other hand, they are not likely to lead a charge against SITLA as our issues are the same as BLM membership.

Mr. Lofgren clarified that the issue is before the Board to understand the changes will be sought through legislation and confirm that Mr. Andrews is asking the Board to provide support as they can. Representative Noel has expressed a willingness to sponsor this for the agency.

Kim Christy reported that the Farm Bureau did not bring up the issue in its meetings in the last few days. Mr. Bingham confirmed that the Farm Bureau has specific language that would allow them to pursue conflict if they choose.

Mr. Andrews added that, until the Supreme Court decision, the definition included eminent domain to developing oil and gas interests. This recent decision, with strong dissent from Justice Lee, overturned people's expectations. The Utah business community had much more understanding. In the past, Supreme Court judges understood these issues. The new Supreme Court does not have that same understanding.

e. Director's Update on Issues

i. Interest in attending WSLCA

Director Carter presented the dates of January 8-12, 2012, for the Western States Land Commissioners Association Conference in Austin, Texas, in January. He briefly reviewed the agenda with emphasis on the roll call as an opportunity to see what other states are doing and how they address similar issues. Dave Ure would like to attend.

Director Carter provided a spotlight on Lynda Belnap's career as this was her last Board meeting before retirement in December. Slides included an early set of minutes prepared by Ms. Belnap in 1968. Respect for her dedication was demonstrated with a standing ovation by all present.

4. Chairman's Report

a. Beneficiary Report - - Update on Permanent School Fund

Tim Donaldson presented the Permanent School Fund investment history. He also discussed current management and diversification in the approach to investing the fund. The report included a projection of future market value of the funds. The PowerPoint slides presented the fund management as follows:

Overview

- Performance
- Diversification and Risks
- 5-year asset allocation study

Performance

June 30, 1994

- Market value \$94,500,000

June 30, 2011

- Market value \$1,201,205,983
 - Cost \$1,010,644,828

Seventeen-year compound annual growth rate is 16.13% (does not include distributions) The permanent fund growth was 84% SITLA and 16% Treasurer. The total portfolio investment with diversification and risks were demonstrated using charts and tables of investment histories.

2011 Callon Associations Report

- Consider active management in some areas
- Weight equities more globally
- Downwardly revised expected diversification benefits

Current Allocations

- 47% Domestic Equities
- 20% Int'l Equities
- 23% Fixed Income
- 10% Real Estate

Current Approach

- Passive, Index Approach

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- Costs Very Low
- Enhanced Vanguard Index funds have long underperformed benchmarks
- Entered REIT market (50% Core, 50% Opportunistic) recently, initial results were poor, but have improved

4. Chairman's Report (Cont'd)

a. Beneficiary Report - - Update on Permanent School Fund (Cont'd)

The Future Assumptions

- SITLA \$65 million per year
(Has been higher than that 5 of past 6 years)
- Continued Income-Only Spending Policy (UT Constitution)
- 2.5% Long-Term Inflation

2016

- *Real Market Value* - \$1.9 Billion (\$1.2-\$3.1 Bil. 5/95)
- *Nominal Spending* \$45 Mil (\$42-50 Mil. 5/95)

2021

- *Real Market Value* - \$2.7 Billion (\$1.6-\$4.9 B 5/95)
- *Nominal Spending* - \$66 Million (\$63-68 M 5/95)

Mr. Lofgren asked Mr. Donaldson what he attributes gains relative to other comparable investments. Mr. Donaldson pointed out that the slides illustrate how funds across investment opportunities have changed over time. Allocation in varied funds realized varied investment returns.

b. Review of Procurement Audits - - Lisa Schneider

Ms. Schneider reviewed past audit findings and presented agency actions taken in response to the audit that took place two years ago. PowerPoint slides presented the audit findings and actions taken by management as follows:

Procurement Audit Review

- Audit covered 25 contracts over \$50,000
- 46 non-contract purchases between \$3,000 and \$20,000

Findings:

- 64% of the contracts were issued as sole source
- 50% of the sole source contracts and 67% of the sole source non-contracts were not approved by the Director
- 94% of the sole source contracts did not demonstrate the fees charged were reasonable
- 30% of the contracts did not publish or advertise RFPs

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- 20% of the non-contract items did not have the required two bids
- None of the contracts for professional services exceeding \$20,000 had the approval of the Director
- 28% of the contracts had excessive change orders
- 67% of the non-contract expenditures for professional services were to providers that were not included on the qualified provider list

4. Chairman's Report (Cont'd)

b. Review of Procurement Audits - - Lisa Schneider (Cont'd)

- 46% of the non-contract disbursements were for activity related to a contract
- 12% of the contracts and 2% of the non-contract disbursements did not identify the type of transaction
- 2% of non-contract disbursements were on the Director's state purchasing card with no evidence of approval

Actions Taken

- Elimination of sole source contracts
- Gatekeeper role assigned to accounting group
- Multi-group team assembled to review process
- Use of BidSync
- Approval of Director's purchasing card transactions

Ms. Schneider indicated the issues of the audit have all been addressed, and we continue to look for areas where we can improve. Director Carter asked if the Board wants to request another audit by the same group as a follow-up to our response to audit recommendations identified two years ago. Mike Mower indicated the beneficiaries keep watch on SITLA procurement process, and the agency is conducting purchasing in a manner that reflects appropriate procedures. Board members did not indicate any interest in another audit at this time.

Ms. Bird indicated there might be an interest in another audit when the real estate market recovers.

c. Other

Dan Lofgren requested an update on the Crown Jewels. John Andrews indicated BLM has a proposal for a larger wilderness. Director Carter reported the BLM has no funds to cover its share of appraisals for exchanges. We would like the Governor to write a letter to Secretary Salazar addressing this concern. Mr. Andrews reported there are also organizations that may provide some funds to move the appraisal process forward.

5. Consent Calendar

a. Oil & Gas Other Business Arrangement - - Foundation Energy Company

There were not comments on this item, so it is approved.

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Notification:

- b. Proposed Negotiated Sale to Scott Lyon (PS 8486) - - San Juan County

This was for notification to the Board. There were no comments on it.

Upon motion by Mr. Mower, the Board adjourned at 11:45 a.m.